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SUBJECT: UN: UNCC EXEC DIR KNUTSSON EXPRESSES CONTINUED
CONCERN OVER INAPPROPRIATE SCOPE OF ONGOING OIOS AUDITS

REF: STATE 25222

Classified By: AMBASSADOR ALEJANDRO D. WOLFF; REASONS: 1.4 (B) and (D).

11. (C) SUMMARY: UN Compensation Commission (UNCC) Executive Director Rolf Knutsson briefed Ambassador Wolff April 4 regarding ongoing UNCC concerns that UN Office of Internal Oversight Services (OIOS) audits of UNCC activities were continuing to exceed the scope previously defined for such audits by the UN Office of Legal Affairs (OLA). Knutsson said that although OLA rendered a legal opinion in November 2002 indicating that claims decisions made by the UNCC Panel of Commissioners constituted a legal process not subject to OIOS review, OIOS was continuing to evaluate claims and to question decisions taken by the Commissioners. Knutsson disputed an OIOS allegation that UNCC might be guilty of paying up to \$500 million in over-compensation for duplicate and unjustified claims. Knutsson indicated he had met earlier the same day with OIOS U/SYG Ahlenius, who continued to express the view that it was within OIOS' mandate to review UNCC claims processing decisions. END SUMMARY.

12. (C) UNCC ExecDir Knutsson, accompanied by UNCC Legal Adviser Linda Taylor, said he had requested a meeting with the U.S. Mission to underscore the importance the UNCC continued to attach to the OIOS oversight issue. Despite the November 2002 OLA ruling, which supported UNCC's position, and a separate opinion provided by Law Professor James Crawford of Cambridge University to the Independent Inquiry Committee into the Oil-for-Food Program (IIC) headed by Paul Volcker, OIOS continued to assert the right to audit UNCC claims award decisions made by panels of commissioners and approved by the UNCC Governing Council. Acknowledging the appropriate role OIOS played in auditing and overseeing UNCC procurement, finance, and payment procedures, Knutsson said OIOS did not have the appropriate authority to review the determinations of law and fact that UN Compensation Commissioners made in deciding claims. OIOS was overstepping its role of internal auditor by presuming to review and challenge the decisions made by the Commissioners, which also were approved by the UNCC Governing Council.

13. (C) Knutsson and Taylor also expressed concern over OIOS' decision to use the date of payment of claims, rather than the actual date of loss used by UNCC Commissioners, to determine the applicable exchange rate of foreign currencies to U.S. dollars for claims awards. The Commissioners have consistently used the exchange rates in effect from the period when Iraqi forces invaded Kuwait, and losses occurred. Were the exchange rates from subsequent years applied, award recipients would not have received appropriate compensation for their actual losses suffered. Knutsson said this discrepancy helped to explain the OIOS claim that UNCC Commissioners had paid up to \$500 million in overcompensation to victims. This simply was not so.

14. (C) Ambassador Wolff thanked Knutsson and Taylor for their

respective explanations of the issues. Wolff asked Knutsson whether he believed OIOS was acting on behalf of one or more member states who might have their own objectives in influencing the outcome of UNCC's work and the OIOS audit process. Knutsson said there was no evidence of any direct involvement by individual governments.

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